

PA Good Doctor (1833 HK)

2022 preview: Solid business development through the bumpy 2022

Due to the negative impacts from COVID and reduction of low-synergy business with its Strategy 2.0 Continuum, we expect PA Good Doctor (PAGD) to experience a temporary revenue decline of 14% YoY in 2022E. However, we expect the Company to deliver good gross profit margin (GPM) improvements and cost savings in 2022E as its Strategy 2.0 transition started to take effect. Going forward, we expect PAGD's business to regain positive growth of +23%/+20% YoY in 2023E/ 24E, considering the post-pandemic business resumption and the growing penetration rate of PAGD's medical services in China healthcare industry. Accordingly, we forecast PAGD's adjusted net losses to narrow to RMB969mn/ RMB645mn/ RMB137mn in 2022E/ 23E/ 24E.

■ **Solid business development through the bumpy 2022.** PAGD's Strategy 2.0 Continuum had delivered initial positive results in 2022, despite business interruption caused by COVID lockdowns and the change of COVID control policies in China. The cumulative number of corporate clients served by PAGD reached 749 as of Jun 2022 (vs 520 as of Dec 2021) and covered more than 2mn paid employees and corporate clients (vs more than 1mn as of Dec 2021), indicating an increasing penetration of PAGD's services among corporate clients and their employees. With the lift of COVID-related travel restrictions in China, we expect PAGD's off-line corporate customer acquisitions to fully resume to its normal pace in 2023 and beyond. In the meantime, PAGD further strengthened its online and offline capabilities via major acquisitions. In Oct 2022, PAGD entered into an agreement to acquire 100% equity interests of Scientia Smart Health Tech with a consideration of US\$97mn, enhancing PAGD's service capabilities in smart big data platform, chronic disease management and connections with doctors and medical institutions.

■ **Expect to see continuous margin improvements.** GPM increased to 27.3% in 1H22 from 23.3% in 2021, due to PAGD's proactive reduction in its online mall business. Besides, selling & marketing expense ratio also dropped to 18.5% in 1H22 from 24.0% in 2021, driven by the inherent cost savings and economies of scale from providing health management services for corporate clients. We anticipate to see similar trends in GPM and selling & marketing expense ratio in 2H22E. With the revenue structure optimization and cost saving effect within its Strategy 2.0 Continuum, we see good chances for PAGD to sequentially increase GPM (27.5%/ 30.5%/ 31.8% for 2022E/ 23E/ 24E) and narrow adjusted net loss in 2022-24E. The Company is on track to generate positive net profit from 2025E, in our view.

■ **Maintain BUY.** Our TP remained largely unchanged at HK\$28.15, based on a 10-year DCF model (WACC: 11.1%, terminal growth rate: 3.0%) to reflect PAGD's long-term growth prospect.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	6,866	7,334	6,335	7,818	9,372
YoY growth (%)	35.5	6.8	(13.6)	23.4	19.9
Net profit (RMB mn)	(949)	(1,539)	(1,051)	(752)	(275)
Adjusted net profit (RMB mn)	(516)	(1,417)	(969)	(645)	(137)
EPS (Adjusted) (RMB)	(0.50)	(1.29)	(0.87)	(0.58)	(0.12)
Consensus EPS (RMB)	na	na	(0.93)	(0.65)	(0.28)
P/S (x)	2.9	2.7	3.1	2.5	2.1
Net gearing (%)	(49.8)	(20.9)	(17.8)	(13.0)	(11.4)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$28.15

(Previous TP) HK\$28.40

Up/Downside 45.0%

Current Price HK\$19.42

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Stock Data

Mkt Cap (HK\$ mn)	22,711.9
Avg 3 mths t/o (HK\$ mn)	22.3
52w High/Low (HK\$)	31.65/13.70
Total Issued Shares (mn)	1118.8

Source: FactSet

Shareholding Structure

Ping An Insurance	39.4%
Sunda Properties	9.4%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.2%	-3.4%
3-mth	3.6%	-10.1%
6-mth	2.7%	-2.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,335	7,818	9,372	6,440	7,947	9,635	-1.64%	-1.63%	-2.72%
Gross Profit	1,729	2,383	2,976	1,759	2,420	3,096	-1.73%	-1.56%	-3.89%
Operating Profit	-1,092	-789	-313	-1,114	-807	-291	n/m	n/m	n/m
Adjusted net profit	-969	-645	-137	-990	-665	-116	n/m	n/m	n/m
Adjusted EPS (RMB)	-0.87	-0.58	-0.12	-0.89	-0.59	-0.10	n/m	n/m	n/m
Gross Margin	27.29%	30.48%	31.75%	27.31%	30.46%	32.14%	-0.03ppt	+0.02ppt	-0.39ppt
Operating Margin	-17.24%	-10.09%	-3.34%	-17.29%	-10.16%	-3.02%	+0.06ppt	+0.07ppt	-0.32ppt
Adjusted net Margin	-15.29%	-8.26%	-1.46%	-15.38%	-8.37%	-1.20%	+0.09ppt	+0.11ppt	-0.26ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,335	7,818	9,372	6,742	7,871	9,106	-6.04%	-0.67%	2.92%
Gross Profit	1,729	2,383	2,976	1,818	2,240	2,736	-4.89%	6.39%	8.75%
Operating Profit	-1,092	-789	-313	-1,233	-904	-446	n/m	n/m	n/m
Adjusted net profit	-969	-645	-137	-1,078	-750	-297	n/m	n/m	n/m
Adjusted EPS (RMB)	-0.87	-0.58	-0.12	-0.93	-0.65	-0.28	n/m	n/m	n/m
Gross Margin	27.29%	30.48%	31.75%	26.96%	28.45%	30.05%	+0.33ppt	+2.02ppt	+1.70ppt
Operating Margin	-17.24%	-10.09%	-3.34%	-18.29%	-11.48%	-4.90%	+1.05ppt	+1.40ppt	+1.56ppt
Adjusted net Margin	-15.29%	-8.26%	-1.46%	-15.99%	-9.52%	-3.26%	+0.70ppt	+1.27ppt	+1.80ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	(1,162)	(829)	(353)	353	616	1,044	1,718	2,740	4,234	6,287
Tax rate	-0.3%	0.0%	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(1,166)	(829)	(353)	300	524	888	1,460	2,329	3,599	5,344
+ D&A	42	53	61	67	110	176	271	406	586	818
- Change in working capital	(192)	(90)	(129)	(100)	(164)	(262)	(405)	(605)	(874)	(1,219)
- Capex	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF	(1,396)	(946)	(501)	187	390	722	1,247	2,050	3,231	4,863
Terminal value										62,024
Terminal growth rate	3.0%									
WACC	11.1%									
Cost of Equity	14.0%									
Cost of Debt	5.0%									
Equity Beta	1.0									
Risk Free Rate	3.0%									
Market Risk Premium	11.0%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									
Terminal value (RMB mn)	21,697									
Total PV (RMB mn)	24,485									
Net debt (RMB mn)	(2,287)									
Minority interest (RMB mn)	0									
Equity value (RMB mn)	26,771									
# of shares (mn)	1,119									
Price per share (RMB per share)	23.93									
Price per share (HK\$ per share)	28.15									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	5,065	6,866	7,334	6,335	7,818	9,372
Cost of goods sold	(3,894)	(5,002)	(5,627)	(4,606)	(5,435)	(6,396)
Gross profit	1,171	1,864	1,707	1,729	2,383	2,976
Operating expenses	(2,131)	(2,784)	(3,350)	(2,821)	(3,171)	(3,289)
Selling expense	(1,207)	(1,587)	(1,757)	(1,172)	(1,212)	(1,172)
Admin expense	(1,075)	(1,017)	(1,846)	(1,980)	(2,209)	(2,367)
Others	151	(180)	253	332	250	250
Operating profit	(959)	(919)	(1,643)	(1,092)	(789)	(313)
Share of (losses)/profits of associates/JV	(27)	(122)	(39)	(70)	(40)	(40)
Net Interest income/(expense)	253	100	159	115	77	78
Pre-tax profit	(734)	(941)	(1,524)	(1,047)	(752)	(275)
Income tax	(13)	(7)	(16)	(4)	0	0
Minority interest	(13)	(0)	(1)	(2)	(1)	(1)
Net profit	(747)	(949)	(1,539)	(1,051)	(752)	(275)
Adjusted net profit	(695)	(516)	(1,417)	(969)	(645)	(137)
Gross dividends	na	na	na	(0)	(0)	(0)
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	8,478	15,256	12,757	12,100	11,517	12,313
Cash & equivalents	4,965	7,920	3,065	2,913	2,715	2,996
Account receivables	649	1,058	1,554	1,607	1,388	1,714
Inventories	75	160	398	463	379	447
Financial assets at FVTPL	1,849	3,566	4,937	4,937	4,937	4,937
Other current assets	939	2,551	2,803	2,180	2,098	2,219
Non-current assets	3,901	3,307	5,124	5,066	5,028	4,981
PP&E	186	166	140	178	205	223
Investment in JVs & assos	510	451	546	475	435	355
Intangibles	106	102	106	81	56	31
Goodwill	967	970	970	970	970	970
Other non-current assets	2,132	1,617	3,362	3,362	3,362	3,402
Total assets	12,379	18,563	17,881	17,166	16,545	17,294
Current liabilities	2,665	2,668	3,674	4,154	4,178	5,064
Short-term borrowings	0	0	0	500	1,000	1,500
Account payables	1,777	1,863	2,641	2,621	2,145	2,532
Other current liabilities	889	805	1,033	1,033	1,033	1,033
Non-current liabilities	44	39	121	121	121	121
Obligations under finance leases	44	39	121	121	121	121
Other non-current liabilities	0	0	0	0	0	0
Total liabilities	2,710	2,707	3,795	4,275	4,299	5,185
Share capital	0	0	0	0	0	0
Capital surplus	13,519	20,652	20,440	20,214	20,214	20,214
Retained earnings	(3,870)	(4,819)	(6,357)	(7,323)	(7,967)	(8,104)
Total shareholders equity	9,649	15,833	14,083	12,891	12,247	12,111
Minority interest	21	23	2	0	(1)	(1)
Total equity and liabilities	12,379	18,563	17,881	17,166	16,545	17,294

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(747)	(949)	(1,539)	(1,047)	(752)	(275)
Depreciation & amortization	146	170	207	42	53	61
Change in working capital	340	(716)	145	(192)	(90)	(129)
Others	(243)	393	(216)	58	95	126
Net cash from operations	(504)	(1,102)	(1,403)	(1,139)	(694)	(217)
Investing						
Capital expenditure	(133)	(73)	(89)	(80)	(80)	(80)
Acquisition of subsidiaries/ investments	0	0	(2)	0	0	0
Net proceeds from disposal of short-term investments	(3,356)	(2,152)	(1,237)	0	0	0
Others	7,966	(272)	(1,773)	803	87	88
Net cash from investing	4,477	(2,497)	(3,100)	723	7	8
Financing						
Net borrowings	0	0	0	500	500	500
Proceeds from share issues	76	6,869	0	0	0	0
Share repurchases	0	0	(368)	(226)	0	0
Others	(67)	53	48	(11)	(10)	(10)
Net cash from financing	9	6,922	(320)	263	490	490
Net change in cash						
Cash at the beginning of the year	926	4,965	7,920	3,065	2,913	2,715
Exchange difference	58	(368)	(32)	0	0	0
Cash at the end of the year	4,965	7,920	3,065	2,913	2,715	2,996
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	51.8%	35.5%	6.8%	(13.6%)	23.4%	19.9%
Gross profit	28.5%	59.2%	(8.5%)	1.3%	37.8%	24.9%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	23.1%	27.2%	23.3%	27.3%	30.5%	31.8%
Operating margin	(18.9%)	(13.4%)	(22.4%)	(17.2%)	(10.1%)	(3.3%)
Adj. net profit margin	(13.7%)	(7.5%)	(19.3%)	(15.3%)	(8.3%)	(1.5%)
Return on equity (ROE)	(7.5%)	(7.4%)	(10.3%)	(7.8%)	(6.0%)	(2.3%)
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.5)	(0.2)	(0.2)	(0.1)	(0.1)
Current ratio (x)	3.2	5.7	3.5	2.9	2.8	2.4
Receivable turnover days	38.9	45.4	65.0	80.0	80.0	80.0
Inventory turnover days	5.3	8.6	18.1	30.0	30.0	30.0
Payable turnover days	153.0	132.8	146.1	170.0	170.0	170.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/B	3.9	5.6	4.8	1.5	1.6	1.6
P/S	3.9	2.9	2.7	3.1	2.5	2.1
Div yield (%)	0.0	0.0	0.0	ns	ns	ns

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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